

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Santa Cruz Women’s Health Center (“SCWHC”) 250 Locust Street Santa Cruz, California, 95060</p> <p>Project Site: Same As Above (Santa Cruz County)</p> <p>Facility Type: Community Clinic</p> <p>Eligibility: GC section 15432(d) - a primary non-profit community-based clinic.</p> <p>Prior HELP II Borrower: Yes, (current balance: \$155,280; payments are current).</p>	<p>Amount Requested: \$530,000</p> <p>Requested Loan Term: 7 year fixed</p> <p>Authority Meeting Date: March 24, 2011</p> <p>Resolution Number: HII-264</p>
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Policy Issue: Staff respectfully refers the reader to the policy discussion set forth on page two.

Background: Established in 1972, SCWHC is a private nonprofit primary health and health education community-based clinic that provides affordable medical services to women and children. The services are provided to a diverse clientele including Medi-Cal and Medi-Care recipients, insured, uninsured, employed, unemployed and retired individuals. Overall, 85% of the clients live below 200% of the federal poverty standards and nearly 44% have no health insurance. In 2010, SCWHC served approximately 5,000 patients and had approximately 20,000 patient visits.

Uses of Loan Proceeds: Loan proceeds will be used to refinance four existing loans, which currently have a balance of approximately \$530,000. This refinance will reduce the monthly loan payments from roughly \$12,370 to \$7,003, resulting in a monthly savings of approximately \$5,367.

Financing Structure:

- 7-year fixed rate loan. 84 equal monthly payments of approximately \$7,003 (yearly payments of approximately \$84,037).
- Second (2nd)* lien position on the property located at 250 Locust Street, Santa Cruz, CA 95060.
- Loan to value ratio not to exceed 95% (estimated combined loan to value ratio of 44%).
- Corporate gross revenue pledge.

*CHFFA has the existing 1st lien on the property, with the principal balance noted above

Financial Overview: SCWHC income statement appears to exhibit steady positive operating results. The proforma debt service coverage ratio is an adequate 1.66x, indicating SCWHC should be able to repay the proposed HELP II loan.

Estimated Sources of Funds:

HELP II Loan	\$530,000
Borrower Funds	<u>8,625</u>
Total Sources	<u>\$538,625</u>

Estimated Uses of Funds:

Refinance loans	\$530,000
Financing costs	<u>8,625</u>
Total Uses	<u>\$538,625</u>

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.

Parties of Interest: National Corporate Bank (NCB) Capital Impact, Santa Cruz County Bank (SCCB), Department of Health Care Services (DHCS), and Stewart Title of California.

Staff Recommendation: Staff recommends approval of Resolution Number HII-264 for Santa Cruz Women’s Health Center in an amount not to exceed \$530,000 for a term not to exceed 7 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with the Authority’s staff recommendations.

I. POLICY ISSUE: Though the Authority’s statute permits financing for working capital needs, the Authority has largely abstained (except on one prior occasion under HELP II and then also under the Medi-Cal Bridge Loan Program) from offering working capital loans in the HELP II loan program. One of the main loans the SCWHC seeks to refinance is a loan owed to the State of California (Department of Health Care Services - DHCS) which recovers overcharges paid to SCWHC by the state. Arguably, this loan is a working capital loan as presumably, the overcharges paid to SCHWC supported daily operations. Staff nevertheless recommends proceeding with refinancing this item given the unprecedented current State budget deficit and the reality that refinancing the loan will bring an immediate cash infusion to the state of California, thereby contributing, however small, to improving the State’s cash flow/budget.

II. PURPOSE OF FINANCING: SCWHC seeks to refinance four existing loans totaling \$530,000 to lower its monthly payment by approximately \$5,367, which is equivalent to an approximate \$64,400 savings per year. According to the borrower, this refinancing will enable SCWHC to increase its cash flow and redirect the cost savings toward improvement of services.

Refinance NCB Capital Impact Loan **\$ 170,000**
 The loan was obtained in June 2010 for the new implementation of the electronic health records (EHR) system. This loan has a monthly payment of \$3,600, due in March 2015.

Refinance NCB Capital Impact Loan **9,000**
 The loan was obtained in April 2003 for a clinical expansion project that has a monthly payment of \$2,000, due in September 2011.

Refinance Santa Cruz County Bank Line of Credit (LOC)..... **40,000**
 The LOC was obtained in January 2011 for unexpected costs associated with the EHR implementation. It is an interest only loan.

Refinance DHCS Loan **311,000**
 The DHCS loan was obtained in January 2011 for State of California Reconciliation for Prospective Payment Services (PPS) rate adjustment for the period of FY 2002 through 2010, which has a monthly payment of \$5,812 due in January 2014.

The proposed HELP II loan will be secured by a second (2nd) lien position on a 4900 square feet clinic building located on .25 acres, owned by SCWHC. The property is located at 250 Locust Street, Santa Cruz, CA 95060, which SCWHC’s management indicates has an estimated current market value of \$1.55 million, leading to a combined loan to value ratio of 44% (CHFFA’s existing 1st lien of on the property in the amount of \$155,000 plus the proposed new loan of \$530,000). A full appraisal on this property will be required prior to closing.

Financing Costs **8,625**

Authority Fees.....	\$6,625
Title and Escrow	<u>2,000</u>

Estimated Uses of Funds **\$ 538,625**

III. FINANCIAL STATEMENTS AND ANALYSIS

Santa Cruz Women's Health Center Statement of Activities

	For the Year Ended June 30,		
	2010	2009	2008
Revenue and Support:			
Program service fees	\$ 2,334,777	\$ 2,308,998	\$ 1,926,076
Grants and contribution	827,058	747,736	748,585
Special events	7,221	9,078	9,835
Investment income	6,140	6,080	6,168
Total Revenue and Support	3,175,196	3,071,892	2,690,664
Expenses:			
Salary, wages, employee benefits	2,376,000	2,279,836	2,022,011
Medical supplies	115,207	112,305	83,137
Depreciation	64,489	63,031	57,662
Computer software and support	63,261	66,238	53,208
Other	60,598	60,323	64,111
Insurance	51,325	53,555	58,363
Contract payment (Tides)	45,000	42,000	0
Contract labor	38,078	45,815	16,803
Occupancy	32,836	28,931	28,268
Repairs and maintenance	30,380	28,886	21,049
Legal and consulting	29,888	30,966	18,780
Accounting fees	28,814	8,691	8,847
Lab services	27,070	25,801	19,952
Supplies	22,699	22,454	21,580
Telephone	19,474	16,582	16,518
Interest	15,674	13,724	18,389
Total Expenses	3,020,793	2,899,138	2,508,678
Change in Total Net Asset	154,404	172,754	181,987
Unrestricted Net Assets, beginning of year	1,251,337	1,210,301	915,177
Temporarily Restricted, beginning of year	350,454	220,511	276,171
Total Net Asset, beginning of year	1,601,791	1,430,812	1,191,348
Prior period adjustment	(10,732)	(1,775)	57,477
Net Assets, end of year	\$ 1,745,463	\$ 1,601,791	\$ 1,430,812

Program Service Fees for FYE June 30, 2010	
Payor Source	Percent
Medi-Cal	43%
Programs Services Fees	22%
Other Third-Party Payors	19%
Medicare	10%
Private party patients	6%
Total	<u>100%</u>

**Santa Cruz Women's Health Center
Statements of Financial Position**

	As of June 30,		
	2010	2009	2008
Assets			
Current assets:			
Cash and cash equivalents	\$ 554,329	\$ 412,486	\$ 377,975
Grant receivable	220,324	1,662	6,013
Account receivable	263,218	331,299	213,556
Prepaid expenses	48,675	26,614	18,412
Medical inventory	14,746	12,305	10,616
Deposits	2,400	5,119	4,779
Total current assets	\$1,103,692	\$789,485	631,351
Property and equipment, net	1,332,153	1,367,355	1,426,520
Total assets	2,435,845	2,156,840	2,057,871
Liabilities and net assets			
Current liabilities:			
Accounts payable	25,556	30,403	66,927
Accrued payroll liabilities	174,453	161,017	127,624
Note payable	0	0	0
Current portion of long-term debt	111,482	71,034	68,896
Total current liabilities	311,491	262,454	263,447
Long term debt:			
Long-term debt, less current portion	378,891	292,595	363,612
Total liabilities	690,382	555,049	627,059
Unrestricted - assets	1,300,463	1,251,337	1,210,301
Temporarily restricted	445,000	350,454	220,511
Total net assets	1,745,463	1,601,791	1,430,812
Total liabilities and net assets	\$2,435,845	\$ 2,156,840	\$2,057,871

Financial Ratios:

Proforma
FYE June 2010

Debt Service Coverage (x)	1.66	2.71	3.02	4.32
Debt/Unrestricted Net Assets (x)	0.58	0.38	0.29	0.36
Margin (%)		4.86%	5.62%	6.76%
Current Ratio (x)		3.54	3.01	2.40

Financial Discussion – Statement of Activities (Income Statement)

SCWHC's income statement appears to exhibit stable and consistent operating results during the review period.

Particular Facts to Note:

- During the review period, SCWHC's operating margin appears to be stable between 6.76% in FY 2008, 5.62% in FY 2009 and 4.86% in FY 2010 indicating a continuous positive performance from operations. According to the borrower, the decreasing trend is attributed to the increase in salaries and benefits associated with the growing number of patient visits.
- During FY 2008 through FY 2010, the operating revenue increased relatively proportional to the increased operating expenses to support the increased demand of services. The percentage of patients served has increased by approximately 15% and the percentage of patient visits have increased by approximately 12% from FY 2008 through FY 2010.
- During FY 2009 and FY 2010, SCWHC received a grant from Tides Foundation for contracting with four local family resource centers in the amount of \$42,000 and \$45,000 respectively.
- For the interim period (ending December 31, 2010), SCWHC had an operating loss of \$142,000 due to the new EHR start-up. The clinic's service productivity level declined due to the learning curve/start-up of the new EHR system, along with rising costs associated with the EHR implementation. According to SCWHC's management, the clinic has not been able to see as many patients, resulting in loss program service revenue. The clinic has added additional clinic hours and expects to be back to full capacity by June 2011.
- According to SCWHC's management, for the interim period ending December 31, 2010, the borrower is NOT affected by the 10% Medi-Cal reduction because SCWHC is considered an FQHC subcontractor, which is exempt from the 10% reduction.
- SCWHC's projected budget for FY 2012 estimates that operating cash flow will be break-even.

Financial Discussion – Statement of Financial Position (Balance Sheet)

SCWHC's balance sheet is solid, with minimal long-term debt and adequate pro-forma debt service coverage ratio of 1.66x.

Particular Facts to Note:

- The borrower has modest leverage with the proforma long-term debt of approximately \$750,000 and unrestricted net assets of \$1.3 million, resulting in a pro-forma debt to unrestricted net assets of 0.58x, below the Authority's target ratio of less than 1.0x.
- For FY 2010, the pro-forma debt service coverage ratio is an adequate 1.66x, indicating SCWHC should be able to repay the HELP II loan.
- During the interim period ending December 31, 2010, long-term debt increased due to a new loan of \$311,000 payable to the State of California for Prospective Payment Services (PPS) rate required by DHCS. SCWHC is working to alter its practice management system to detect future overpayments. In addition, the SCWHC has reduced its PPS rate to ensure that overpayments will no longer continue in the future.
- During the interim period ending December 31, 2010, cash and cash equivalents declined to \$121,000 (15 days cash on hand) due to several one-time costs for the State Reconciliation, EHR implementation and the hiring of a grant writer.
- SCWHC's management indicates that moving forward the cash position should improve due to pending grant applications. One particular grant is the New Access Point (NAP) funded under the Affordable Care Act. The current funding opportunity allows communities to apply for the maximum annual amount of \$650,000 to care for uninsured patients for two years. The organization will receive the results of the NAP application in August 2011. In addition, SCWHC is currently in the process of upgrading to version 9 of the electronic health record, which has been certified by Centers for Medical and Medicaid Services (CMS) as qualifying for meaningful use. SCWHC is expecting to receive the EHR incentive payments beginning in May 2011, estimated at \$574,000 over a six year period.

EXHIBIT 1

UTILIZATION STATISTICS

Patient Visits for Fiscal Year Ended June 30,

	2010	2009	2008
Totals	19,648	19,575	17,272

EXHIBIT 2
OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding* As of March 1, 2011	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt:			
CHFFA/HELP II, 2003**	\$297,079	\$155,280	\$155,280
NCB Capital Impact, 2003	180,000	9,000	0
NCB Capital Impact. 2008	149,231	65,000	65,000
NCB Capital Impact, 2010	200,000	170,000	0
State of California (DHCS), 2011	311,139	311,000	0
Proposed CHFFA HELP II, 2011		N/A	530,000
TOTAL DEBT		\$710,280	\$750,280

* Loan balance outstanding, as of March 1, 2011.

** The loan was amended in 2003 for an extension.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Established in 1972, SCWHC is a nonprofit primary health and health education community-based clinic that provides affordable and quality medical services to women and children. Its mission is to provide quality health services and advocate the feminist goals of social, political and economic equality. SCWHC has commitment to providing services to those who face barriers to care due to economic status, disability, sexual orientation, mental illness, or immigration status. SCWHC is governed by a community Board of Directors.

The SCWHC provide services to a diverse clientele including Medi-Cal and Medi-Care recipients, insured, uninsured, employed, unemployed and retired individuals. Since 2005, the number of patients served has increased by approximately 25% from 4,212 to 5,216 in 2010. The number of visits has grown by approximately 58%, from 12,474 to 19,648. Overall, 85% of the clients live below 200% of the federal poverty standards, nearly 44% have no health insurance and 11% or 587 of the patients are homeless or recently became homeless.

Licensure, Certification and Accreditation

SCWHC is licensed by the California Department of Public Health to operate and maintain a Community Clinic located at 250 Locust St, Santa Cruz, CA 95060.